

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1904-02
Bill No.: Perfected HCS for HB 787
Subject: Mortgages and Deeds; Licenses - Professional
Type: Original
Date: April 28, 2011

Bill Summary: Allows a residential mortgage loan broker to be licensed in this state without having to maintain a full-service office in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator, Department of Higher Education, Department of Insurance, Financial Institutions, and Professional Registration and Joint Committee on Public Employee Retirement** assume the proposal would have no fiscal impact on their agencies.

In response to an earlier version of this proposal, officials from the **Office of State Treasurer, Firemen's Retirement System of St. Louis and County Employees' Retirement Fund** assumed the proposal would have no fiscal impact on their agencies.

In response to similar legislation from the current session (HB 50), officials from the **Missouri Local Government Employees Retirement System, the Missouri Sheriffs' Retirement System, and the Public School Retirement System of Missouri** assumed this proposal would have no fiscal impact on their organizations.

In response to similar legislation from the current session (HB 50), officials from the **Missouri Department of Transportation and Highway Patrol Employees' Retirement System** (MPERS) assumed this proposal would eliminate the Missouri state tax on certain annuity or retirement plans. MPERS officials indicated that the proposal would have no fiscal impact on their organization.

MPERS officials stated that they had processed 124 backdrop distributions over the past year of which 48 elected a cash distribution, and indicated that persons taking such distributions may need to provide additional information to DOR to implement the proposal.

In response to an earlier version of this proposal, officials from the **Office of Administration - Division of Budget and Planning (BAP)** stated the proposed legislation should not result in additional costs or savings to the BAP.

Section 143.124 - Lump Sum Distributions - Annuities/Retirement Plans

This section prevents the taxation of certain lump sum distributions, contingent upon the passage of similar federal legislation. Should this bill and a federal measure become law, general and total state revenues will be reduced by an unknown amount.

ASSUMPTION (continued)

Section 166.415 - Higher Education Savings Program Investment

This section allows the board of the Missouri Higher Education Savings Program to invest in any investment vehicle if it meets certain requirements and prohibits investments from being limited to specific groups. The BAP defers to the State Treasurer's Office for any statewide fiscal impact.

Section 408.052 - Real Estate Lender Fees

This section exempts mortgage brokers making loans on manufactured or modular homes from real estate lending fee restrictions. This will not impact general or total state revenues.

Section 443.812 - Residential Mortgage Loan Brokers

This section allows a residential mortgage loan broker to be licensed in this state without having to maintain a full-service office in Missouri. This will not impact general or total state revenues.

In response to an earlier version of this proposal, officials from the **Office of Secretary of State (SOS)** stated the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

In response to an earlier version of this proposal, officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assumed this proposal would eliminate the tax on a one-time early distribution from certain annuities or retirement plans when the distribution does not exceed 20% of the total account balance. EPARC officials noted that their data set did not contain a variable for pension and annuity balances and could not provide an estimate of the fiscal impact of this proposal.

In response to an earlier version of this proposal, officials from the **Missouri State Employees' Retirement System (MOS)** assumed that the proposed legislation would, if enacted, eliminate state income tax on certain lump sum distributions from annuities or other retirement plans for such distributions occurring for tax years beginning on or after January 1, 2011. This proposal would have no fiscal impact to MOS.

ASSUMPTION (continued)

The proposal would eliminate state income tax on lump sum distribution from an annuity or other retirement plan, not included in a person's Missouri adjusted gross income, if such lump sum distribution is a one-time event and does not exceed 20% of the balance of the annuity or retirement plan, to the extent such distribution is included in the taxpayer's federal adjusted gross income and not otherwise deducted from the taxpayer's federal adjusted gross income in the calculation of Missouri taxable income. This law would become effective only upon the enactment of a federal deduction for such one-time lump distributions.

BackDROP

The deferred retirement option provision (BackDROP) is available at retirement to qualifying state employees covered only by the MSEP and the MSEP 2000 plans. (BackDROP is not available to employees subject to the MSEP 2011 plan.) BackDROP allows an employee to receive a lump sum payment at retirement in addition to a reduced ongoing monthly benefit. An employee may elect to receive a BackDROP payout with 1) a cash option, 2) a rollover option or 3) a combination cash and rollover option.

Under the cash and combination cash and rollover options, the lump sum cash distribution is paid directly to the member, and MOS is required to withhold 20% of those payments as federal income tax withholding. That distribution is considered taxable income for the year in which the member receives payment. If the member receives a cash payment prior to reaching age 59 and one-half, the member may be subject to an additional penalty of 10% of the taxable portion of the payment in addition to regular income tax.

The table below illustrates the number of members that have elected the cash distribution option as well the total distributions paid over the past three years.

Cash Distributed in BackDROP Payments

<u>Fiscal Year</u>	<u>Number of Members</u>	
	<u>Taking Cash Option</u>	<u>Total Cash Distributions</u>
FY 2010	216	\$13,696,512
FY 2009	146	\$10,381,027
FY 2008	156	\$10,872,878

ASSUMPTION (continued)

Oversight notes that this proposal would have a fiscal impact to the state of Missouri from reduced personal income tax revenues to the extent that filers would:

- * take distributions from retirement plans which would not be rolled into another qualified retirement plan or otherwise exempted from taxation under federal income tax provisions; and
- * would not be eligible for any of the current state income tax exemptions provided for retirement income.

If the Total Cash Distributions reported above by the MOS were otherwise subject to state income tax because they did not qualify for existing exclusions or exemptions, the reduction in revenues for this proposal at the maximum 6% state income tax rate would have been \$821,791 in FY 2010, \$622,862 in FY 2009, and \$652,373 in FY 2008.

Oversight notes the proposal would become effective only upon the enactment of a federal deduction for such one-time lump distributions. **Oversight** assumes that some distributions would become subject to these provisions but is not able to estimate the number of filers, nor the amount of those distributions, and will indicate a \$0 or unknown negative fiscal impact to the state General Revenue Fund.

Further, **Oversight** notes that the responses from pension and retirement system officials indicate no fiscal impact to their organizations for this proposal. Therefore, **Oversight** assumes this proposal would have no actuarial impact on those plans.

Officials from the **Department of Revenue (DOR)** state Section 143.124 provides for a new tax deduction. The deduction created requires a new line on the MO-A tax form and result in the DOR needing two (2) Temporary tax employees for returns keyed, one (1) Revenue Processing Technician I per each 2,400 pieces of correspondence received as a result of this new tax deduction and one (1) Revenue Processing Technician I per each 19,000 returns reviewed as a result of this new deduction. The DOR officials also provided an estimate of the IT impact to implement this proposal of \$8,904, based on 336 FTE hours of programming.

The DOR estimates total FY 12 costs of \$99,712; FY 13 costs of \$95,920; and FY 14 costs of \$96,910.

DOR officials also stated that any income tax exemption would reduce Total State Revenue.

ASSUMPTION (continued)

Oversight notes again that this tax deduction would only become effective upon the enactment of a federal deduction for such one-time lump distributions. Based on the limited number of persons taking the cash option, as provided by MOS, **Oversight** assumes the DOR would not require additional staff to process returns and correspondence. **Oversight** further assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year and assumes OA-ITSD (DOR) could absorb the costs related to this proposal. However, If multiple bills pass which require additional staffing and duties at substantial costs, the DOR could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction - Income tax exemption</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposal may have an impact on small business residential mortgage loan brokers that were prohibited from being licensed in Missouri because they did not maintain full-service offices in this state.

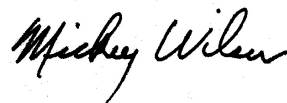
FISCAL DESCRIPTION

If similar provisions are also enacted by the federal government, beginning January 1, 2011, this proposal will eliminate the tax on a one-time early distribution from certain annuities or retirement plans when the distribution does not exceed 20% of the total balance of the account.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Budget and Planning
Office of State Courts Administrator
Department of Higher Education
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue
Joint Committee on Public Employee Retirement
Office of Secretary of State
Office of State Treasurer
County Employees' Retirement Fund
Missouri State Employees' Retirement System
Firemen's Retirement System of St. Louis
Missouri Local Government Employees Retirement System
Missouri Sheriffs' Retirement System
Public School Retirement System of Missouri
University of Missouri -
 Economic and Policy Analysis Research Center
Missouri Department of Transportation and Highway Patrol Employees' Retirement System



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